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Hotel stocks on a rebound amid sectoral recovery

Pent-up demand, festive season and corporate travel are growth propellers as valuations improve.

by **Sameer Bhardwaj**

After a muted April-June 2024 quarter, the hotel sector is expected to bounce back aided by demand recovery. Seventeen hotel stocks (with market cap greater than ₹100 crore) reported an aggregate revenue growth of 6.9% year-on-year in the June quarter, compared to 17.2% in the March quarter, according to data compiled from Reuters-Refinitiv. Lower occupancy due to elections, heat wave and fewer weddings impacted the performance of the sector in the first quarter of 2024-25.

The performance is set to improve and
1 brokerage reports from Axis Securities, Antique Stock Broking, Ambit Capital, ICICI Securities, IDBI Capital and Motilal Oswal are positive about the sector. The release of pent-up demand, more wedding days and the onset of the festive season are the key near-term growth drivers. In addition, increased corporate travel and corporate rate hikes, expansion of inventories, renovation of existing properties, and favourable demand-supply dynamics are medium-term growth drivers.

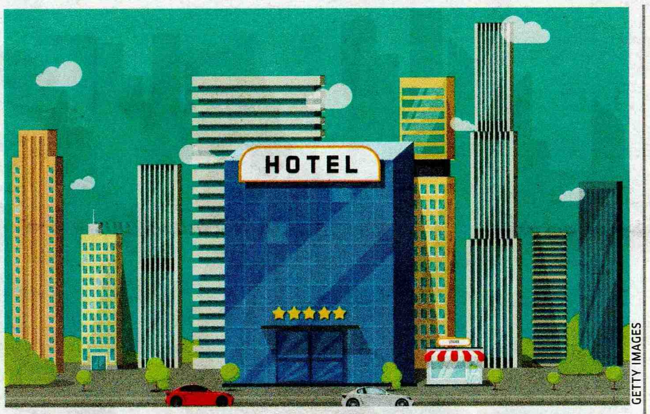
The Axis Securities report lists factors such as foreign tourist arrivals, domestic travellers and MICE (meetings, incentives, conferences and exhibitions) as sustainable growth drivers of the industry over the next three years. The report expects the sector occupancy to improve by 500 basis points and the average room rate (ARR) to grow at a CAGR of 7-8% over the coming years.

The report from Ambit Capital believes that higher incomes and rising urbanisation will lead to an exponential increase in discretionary spending (especially leisure) over the coming decades. This, coupled with the acceleration in domestic air passenger traffic, opening up of world-class convention centres (Jio World, Bharat Mandapam, Yashobhoomi) and government initiatives to improve infrastructure (construction of national highways, new airports) will boost the travel ecosystem. The report also sees contained supply-side risks due to supply addition across locations, especially in tier 2/3 cities.

The Motilal Oswal report lists rising trends of spiritual and wildlife tourism and healthy operating leverage as the sector's key strongholds. The margins are expected to expand due to a favourable demand-supply situation. The report states that the demand CAGR of branded rooms will grow at 10.6%, compared to the supply CAGR of 8% over the next three years.

Looking at sectoral valuations, experts believe that given the tailwinds, there will be earnings upgrades in the mid to long term, which will help sustain the current valuations. The valuations are not stretched as the fundamentals of the sector are improving. The Ambit report has upgraded the long-term estimates for its hotel coverage companies amid continued travel momentum. On the other hand, the Axis Securities report states that the free cash-flow generation across the hotel sector supports the valuations.

The FCFF/EBITDA ratio has steadily increased. The pre-Covid ratio was in the 30-40% range, but it has now risen to 50-60% due to higher revenue realisations and minimal capital expenditures in the industry. This ratio is expected to improve to around 70% over the next three years, adds the Axis Securities report. Here are some hotel stocks that are currently favoured by brokerages and are offering a double-digit price potential.



Lemon Tree Hotels

12-month forward EV/EBITDA	Current price (₹)	1-year target price (₹)
20.2	114	154

POTENTIAL UPSIDE **34.84%**

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
15	0	1

THE COMPANY IS expected to benefit from its asset-light business model and focus on expansion. Moreover, with most of the properties in business locations, the revival in corporate travel and traction in the MICE segment will bode well for the company. It has planned aggressive room additions over the next 2-3 years, which will drive occupancies and ARR. The management is optimistic about healthy RevPAR (revenue per available room) after the completion of renovation work (expected by 2025-26). Analysts list ramp-up in occupancy of Aurika, Mumbai, emphasis on brand building, and cost efficiencies as key strongholds.

SAMHI Hotels

12-month forward EV/EBITDA	Current price (₹)	1-year target price (₹)
12.7	190	283

POTENTIAL UPSIDE **48.83%**

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
3	0	0

IT REPORTED A strong performance in the June quarter with 31% year-on-year revenue growth. The performance was led by healthy same-store RevPAR and positive impact of the AICC acquisition. Office space absorption in the key markets (Bengaluru, Hyderabad, Pune, Delhi/NCR) and healthy air traffic growth have contributed to the RevPAR during the quarter.

The management expects a stable RevPAR in the future. Ambit Capital lists renovation and rebranding of existing portfolio, marquee brand tie-ups, strategically located assets and new asset additions as key strongholds.

Hotel sector 12-m forward industry median EV/EBITDA: 19.9. Current price as on 7 October 2024. *Target prices are averaged for brokerages that have revised prices since August 2024. **Source:** Reuters-Refinitiv and brokerage reports.

Chalet Hotels

12-month forward EV/EBITDA	Current price (₹)	1-year target price (₹)
22.1	831	971

POTENTIAL UPSIDE **16.93%**

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
11	2	0

THE COMPANY'S STRONG brand equity, collaboration with leading international hotel brands, annuity asset portfolio and strategically located properties make it well-placed to capitalise on the opportunities arising from robust demand in the sector. Analysts list prospects of a steady jump in cash generation from 2024-25 and strong promoter support (Raheja group) as key strongholds.

Moreover, its expansion and renovation plans are expected to drive revenue growth. The upcoming offerings are strategically located in high ARR, high-margin regions, such as the Delhi Airport zone, Navi Mumbai and south Goa. The company enjoys the highest FCFF/EBITDA among peers.

Juniper Hotels

12-month forward EV/EBITDA	Current price (₹)	1-year target price (₹)
19.5	355	482

POTENTIAL UPSIDE **35.63%**

ANALYSTS' RECOMMENDATIONS		
BUY	HOLD	SELL
2	0	0

THE LUXURY HOTEL sector player benefits from a strategic partnership with the Hyatt group, which helps attract a wide range of market segments (business travellers, leisure travellers and event organisers). Though the company's performance is expected to suffer in the September quarter due to the impact of the 100-room renovation at Grand Hyatt, Kalina, Mumbai, the long-term growth prospects remain intact.

The company is expected to generate strong cash flows, which will support debt reduction and help improve RoCE to 13% in 2026-27 (from 7% in 2023-24), according to the Axis Securities report. The report states that the company presents a strong investment case, driven by impressive revenue growth projections.

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